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A REVIEW AND DISCUSSION OF
THE FEDERAL BUDGET

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A REVIEW AND DISCUSSION OF THE
FEDERAL BUDGET

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CHAPTER I

INTRODUCTION

The Scope of the Question

The Federal budget has been the object of criticism and controversy in the past few years. Noted authors, statesmen, and public spirited citizens have written much, some with an eye to correcting deficiencies, others toward changing the complete system, and still others just for the sake of comment. When one contemplates the magnitude of the figures presented each year and the great number of activities affected by this document, it is a wonder that even more hasn't been written about it. Most Americans think only about the Federal budget around the first of the year when it is presented to Congress. This causes great publicity in the papers. Or again they may give it serious thought while they are struggling with their income tax returns. Beyond this, most people are content to let a relatively select few review and pass on the budget, hoping in this way that the individual will be protected.

Purpose and Scope of this Thesis

But as this document has grown in the past few years, are the few doing an adequate job? This is not to challenge their honesty or loyalty, but do these people have the time available to do a proper job? Can these relatively few know enough in their respective fields and areas that are expanding year to year, to keep abreast of their particular situation so that they may make a true and honest appraisal of figures.

presented? As an interesting sidelight the Federal budget receipts have increased from \$567,000,000 in 1900 to \$77,763,000,000 in 1960; expenditures have gone from \$521,000,000 in 1900 to \$76,539,000,000 in 1960. The public debt in 1900 was \$1,263,000,000 and in 1960 this figure climbed to \$286,331,000,000.¹ To amplify this extremely complicated situation, the following excerpt from an article in the New York Times published on the day after the latest budget was presented to Congress....

...the 1962 budget weighs four pounds six ounces in the paper back edition. The main plot is simple enough: how to live on \$81 billion a year. But what gives the book its unusual literary quality is the artistry with which the sub-plots are woven in a sort of counterpoint story.

Take this passage on page 480:

Laundry Service	1960	1961	1962
Naval Academy	\$571,000	\$612,000	\$606,000

Search where he will in the 1040 pages, the reader will find no comparable entry for the military academy....Do the West Point Cadets do their own laundry? Or do they send it home to mother?

Or look at page 17. In the Senate budget, the Vice-President and the President Pro Tempora are allowed \$9,000 each for an automobile. In the House budget, the Speaker is allowed \$10,000 for the same purpose. And the majority and minority leaders get \$19,000 each.

But now turn to page 49 and this entry:

Automobile for the Chief Justice \$7,000. Why this discrimination?...

It was in the 1920 s that Warren G. Harding, with the assistance of his budget director, Charles G. Dawes bought out the first volume in the ever-popular budget sequence. The world was simpler too. How to live on \$3,500,000 a year. But the two authors took 1,148 pages to tell it, just 108 more than the present volume....²

Further, the region of control will be explored. Does the executive control the budget and if he does control, how does he do it. Is Congress actually in control? How effective is its hold on the national purse strings? One authority says:

¹1962 Federal Budget in Brief, Bureau of the Budget, Executive Office of the President, United States Government Printing Office, Washington: 1961

²Wallace Carroll, Special Article to The New York Times, January 17, 1961

We must conclude then that the attempts of Congress to arm itself with the machinery of retrospective control have altogether miscarried. Congress has not succeeded enough in devising a system of procedure stringent enough to render efficacious. I say procedure, for it seems clear that what is needed is not a new right, but a prompt and searching remedy.³

Is this 1943 view still valid in 1961?

The development of a philosophy of public budgeting has proceeded at a rather slow pace and has been consistent with our general overall philosophy of government. Both the budget and the budget process have followed in the wake of our changing conceptions of public activities. As Harold Smith explains:

If a budget had existed as such 150 years ago, it would have been a small budget, consistent with the precept that "that government is best which governs least." But that conception no longer obtains. We now seem to operate under the precept that "That government is best which serves most;" or perhaps more accurately, "Our government must give much service if the country is to survive." Certainly government today is a great service enterprise which not only gives protection and care to individuals, but also undertakes to influence the business cycle in such fashion as to minimize the impact upon our citizens. The budget is the most accurate measure of the significant transition in the responsibility of government.⁴

My thoughts and conclusions are presented in a manner which will review a brief history of the budget of the United States and the many steps which the budget goes through from its conception until execution. Students of budgeting may find this boring; I ask their indulgence; to those who are not acquainted with the in's and out's I hope the following chapters may prove most enlightening.

³Lucius Wilmerding, "The Spending Power" (New Haven: Yale University Press, 1943) p 308

⁴Harold D. Smith, "The Budget in Transition" in "Budgeting: an Instrument of Planning and Management", Catheryn Seckler-Hudson, editor, (Washington: The American University, 1944) Unit 1, p 73

CHAPTER II

A HISTORY OF BUDGETING

The Beginning of a Financial System

Much controversy has raged and will continue to rage through the years as to whether the budget should be adopted along lines of "performance" or whether its present form is acceptable. What the future form will assume only time will tell. In this paper a history of the budget of the United States from 1777 to the present will be sketched.

The articles of Confederation adopted in 1777 by the Continental Congress were ratified by all the states and completed in 1781. Unfortunately struggles over the distribution of power between federalism and localism started the breakdown of the Confederation. The ultimate breakdown was due not so much to the defects of the Articles as to the psychological unreadiness of Americans to submit to outside control and to the "hard times" which made any government an adventure.¹ Inability to provide adequate revenues was one of the greatest failures to the Confederation. The limitation of the taxing power left the national government dependent upon requisitions from the several states. Edmund Randolph proposed an amendment reading "Bills for raising money

¹Samuel F. Morrison and Henry S. Commager, "The Growth of the American Republic", (New York, Oxford Press, 1950) p 259

for the purpose of revenue, or for appropriating the same, shall originate in the House of Representatives; and shall not be amended or altered by the Senate as to increase or diminish the sum to be raised, or change the mode of levying it, or the object of its appropriating."² The Constitution may be regarded as setting four qualifications regarding the exercise of the spending power:

1. No appropriation in support of the Army shall run for longer than two years.
2. No money shall be drawn from the Treasury but in consequence of appropriation.
3. A regular statement and account of all receipts and expenditures must be rendered from "time to time".
4. All expenditures shall be made for the general welfare.³

On the 17th of September in 1787 delegates from the States, realizing the need for centralization, affixed their signature to the Constitution of the United States of America. Financially, the first problems were the need for a national monetary system and a national revenue system. Alexander Hamilton drafted the bill which established the Treasury Department and submitted estimates of appropriations to Congress which were not even itemized. Appropriation action therefore was little more than a rubber stamp.⁴

Albert Gallatin an active opponent of Alexander Hamilton was continually agitated by:

- a) lump sum appropriations
- b) broad discretionary powers given to the President and the Secretary of the Treasury

²James Madison: "Journal of the Federal Convention", edited by E. H. Scott (Chicago: Albert, Scott and Col, 1893) p 512

³Daniel T. Selko, "The Federal Financial System" (Washington: The Brookings Institution, 1940) p 45

⁴Paul Studenski and Herman E. Krooss, "Financial History of the United States", (New York: McGraw-Hill Book Company, Inc., 1952)

c) lack of formal regular reports on the state of finance.⁵

Gallatin early recognized the significance of the element of Congressional control of expenditures. In order to provide regular information on the "state of finances" and to make the Secretary more accountable, Congress, in 1800 required the Secretary of the Treasury to submit an annual report to Congress. Under Gallatin's encouragement, the House Ways and Means Committee achieved permanent status in 1802, and until the Civil War it controlled appropriation bills as well as revenue measures. The Secretary of the Treasury duties from 1802 to 1865:

...during this period he continued to present his annual report and at the beginning of each session of Congress a Book of Estimates setting forth the expenditure requirements of the various departments and agencies. The Secretary's function was primarily clerical. He classified the expenditure proposals and transmitted them to Congress. He did not criticize, alter, reduce or coordinate the requests.⁶

The members of this powerful committee had beaten off all attempts to cut down their authority until 1865, when it was generally agreed by all that the load was too heavy. As a consequence in March 1865, the House created its Committee on Appropriations which was then appointed at the opening session of the following Congress. Thaddeus Stevens of Pennsylvania was appointed the first chairman of the new committee which consisted of nine members. Committee arrangements in the Senate paralleled those in the House. In the upper chamber the Committee on Finance had been concerned with both revenues and appropriations for more than seventy years. In 1867 the Senate followed the example of the House

⁵IBID., p 71

⁶Jesse Burkhead, "Government Budgeting", (New York: John Wiley and Sons, Inc., 1956) p 10,11

and created a Committee on Appropriations to consist of seven members. The Finance Committee has continued to this day to retain jurisdiction over revenue measures.

Period of Laxity

An incentive to operate the finances so as to achieve greatest economy simply did not exist during the period from the Civil War to the 1900's. America was safe from attack from abroad and with no apparent end to her wealth of resources. The infant industries demanded protection which was provided in the form of high tariffs. This was the period when the "financial problems" faced by Congress was the high revenue brought in from these customs duties.

Among the more judicious acts of Congress during this period was the passage of the Dockery Act in 1894, as a means of overhauling the accounting and auditing system. The original accounting and auditing procedures from the Treasury Act of 1789 created an Auditor and a Controller. The Dockery Act established the Offices of the Controller and an Assistant Controller of the Treasury and set up Auditors for the following agencies: Treasury, War, Navy, Post Office and State Department.

Its redefinition of the duties of the Controller provided an important step toward the present day budget process. The judicial aspects of the offices were given emphasis while administrative functions were removed; thus by confining the Controller's duties to "the legal construction of cases, the law gave recognition to the judicial work of that officer as his prime and almost exclusive duty."⁷

⁷Darrel H. Smith, "The General Accounting Office", (Baltimore: The Johns Hopkins Press, 1927) p 43

Although the provisions of the Act were numerous, most of them were largely related to the details incident to the rearrangement of the system of accounting and auditing by the department auditors. The system set up by this act received no further revision until the Budgeting and Accounting Act of 1921.

Mention also should be made of the problem of deficiencies in this period of history. The deficiency problem arose when executive agencies spent or obligated, in an early part of the appropriation year, the bulk of their appropriations and then asked Congress for more money. The denial of such requests would have resulted in a national program grinding to a halt. In many of these recurrent situations, it was not clear whether the administration offices had deliberately incurred additional obligations or had genuinely found the appropriations inadequate to meet the needs of operation. At any rate, the number of deficiency appropriations increased rapidly.⁸ The so-called Anti-Deficiency Act of 1906 was a section of the Urgent Deficiency Act which forbade administrative expenditures in excess of appropriation unless the obligations was authorized by law and directed the apportionment of funds by the agencies. The appropriations were to be apportioned monthly to prevent expenditure in one portion of the year of all funds which caused additional or supplementary appropriations. The Act further directed that only the head of the department could change the apportionment after it was once set up and that in doing so he must communicate his reasons in writing to Congress. This

⁸Selko, op. cit., p 97

practice remained operative until 1933 when the complete control of apportionment was transferred to the Bureau of the Budget where it remains today.

Until the establishment of the present budget system by the Budget and Accounting Act of 1921, Congress determined and guided, insofar as possible, the details of the government financial system with little or no assistance from the Chief Executive. His sole duty was to approve or disapprove the bills as they came from Congress. The House distributed the appropriation bills among several committees. No one knew the total amount of the appropriations until the end of the congressional sessions.

The government had become "one of standing committees; and the representative, deliberative body as a whole could do little more than approve their acts. In the federal government there were sixty one committees in the House of Representatives, of which fourteen could originate appropriation bills and seventy four in the senate, of which fifteen could originate bills which carried charges against the Treasury, working independently of one another and with no provisions for coordination or locating responsibility."⁹

By 1910, the financial methods of the national government had become so obviously defective and so open to political abuses that steps were taken to correct them. In this year, President Taft appointed a Commission on Economy and Efficiency. After a searching investigation, covering two years, this commission made several reports setting forth its findings. The most important of these was the one entitled,

⁹Frederick A. Cleveland, "Popular Control of Government", Political Science Quarterly, June 1919, p 237

"The Need for a National Budget" which the President submitted to the Congress with his endorsement. He believed so strongly in the main recommendation of this report, namely the formulation of the budget by the President that he actually prepared "A Budget for the Fiscal Year 1914" and submitted it to the Congress. It was coldly received and practically ignored.¹⁰

Although the work of the Taft Commission was neglected by Congress, it had an immediate and telling effect on the state governments. The work of the commission provided the initial impetus toward a country-wide movement for budgetary reform among the states. Within a decade nearly every state government had provided for budgetary methods. These states' experiments in budgeting were in the nature of laboratory tests, which served to demonstrate the great need for a budget system in the national government. Following the close of the first World War, there was a strong popular demand for national budgetary reform, so much so that Congress could not procrastinate any longer. After extended hearings and debate, Congress finally passed a bill in June 1920. President Wilson vetoed this bill because of a certain restriction on his constitutional prerogative. The next Congress passed almost an identical bill and it was signed by President Harding on June 10, 1921.

Establishment of the Present System

The Budget and Accounting Act of 1921 was the result of years of dissatisfaction with financial management and it placed full responsibility upon the President for preparation of the budget. The act

¹⁰Daniel Bell, "The Function of the Bureau of the Budget", in George B. Roberts (editor), A Forum of Finance, Columbia University Press, New York, 1940, p 59,60

provided for two new establishments, a Bureau of the Budget within the Treasury Department and a General Accounting Office "independent of the executive department and under the control and direction of the Controller General of the United States."¹¹

The new Bureau was headed by a Director and an Assistant Director appointed by the President and serving at his pleasure. In making the Director the "Presidents' man" there was assurance that at least the initial stages of budget preparation would be controlled by the President. The Bureau was required to receive, assemble, revise and compile the estimates of the various departments and agencies. In addition it was charged with the supervision and control of budget administration. This included the apportionment of appropriations, a function which had been in the hands of department heads under the Anti-Deficiency Act of 1906. The Budget Bureau served as a staff agency to assist the President in achieving more efficient management and more economical conduct of government business.

The Act further established the General Accounting Office, headed by a Controller General and an Assistant Controller General who were to be appointed by the President with the advice and consent of the Senate. Reporting directly to the Congress, the General Accounting Office was given the general task of prescribing the government's financial accounting system and making final audits of all accounts. It was also charged with making recommendations to Congress for improvement and efficiency. Clearly the General Accounting Office was designed to work in a unique relationship with the legislature. The Act placed it in a

¹¹The Budget and Accounting Act of 1921, Section 301

strategic position to serve that body in the investigation of administrative expenditures. Its establishment laid out the base for a sound system of audit. In talking about the need for an audit to control budget spending, Professor Willowby said:

...I consider it a very important phase, that should go along jointly with a proposal to vest in the President the formulation and submission of a budget. The vesting of that power in the hands of the President, as it should be, is certainly going to enormously increase his power. I mean it will increase it effectively in the government and it is going to increase it politically outside of the government. And I think it is a canon of correct administrative organization and procedures that just in proportion as responsibility is increased and powers enlarged, control should be correspondingly strengthened.

The proposal to establish an independent department of accounts with a controller entirely independent of the administrative branch and reporting directly to Congress, gives the real responsible body, Congress, power to go over and scrutinize in an independent way every act of the administration and will furnish the means of control over this enlarged power that the President would have.¹²

It is interesting to note that during this period, Congress also took action to improve the system of handling appropriation bills in which all such bills were referred to the Committee on Appropriations. This put an end to the diffusion of responsibility for the study of appropriations among several committees. Revenue measures continued to be considered separately, while the rules which permitted individual members to sponsor appropriation bills made overall control of finance impossible. Unfortunately the use of "riders" resulted in the continuation of the practice of passing a mass of extraordinarily confusing legislation.

Notwithstanding defects in the Act, for the first time the United States could speak of a budget process comprising formulation by the

¹²Hearings before the Committee on Consideration of a National Budget, U.S. Senate, 66th Congress, 2nd Session, December 15, 1919, p 36

executive, authorization by Congress, execution under the direction of the President and an independent audit as a means of legislative review.

For more than a decade after the passage of the Budget and Accounting Act, the budget indicated an emphasis on economy and efficiency and the Budget Bureau functioned little more than an auxiliary service agency. The economic crises of the thirty's, the extraordinary measures undertaken to combat them, led to more thought and discussion on the subject of the existing budget system. It became evident that the national budget system was nearing the end of its adolescence and was soon to take its place as one of the great instruments of administrative management. It was being perceived that efficiency in administrative management depended heavily upon firm lodging of responsibility for financial management. Nor could fiscal policy succeed if budgetary tools remained undeveloped and unused.¹³

President Roosevelt's Reorganization Plan #1

In 1939, transfer of the Budget Bureau from the Treasury Department to the Executive Office was effected under the authority of the President's Reorganization Plan # One by Executive Order #8248 dated 8 September 1939. This was by no means a hasty decision but was an act which had been built up by the experience that the nation had undergone

¹³George B. Galloway cites the function of modern fiscal policy as being (1) the determination of the source, volume, and forms of public revenues; (2) the determination of the scope and purposes of public expenditures; (3) the use of the budget as a means of coordinating revenues and expenditures; (4) the smoothing out of the inequalities of wealth in the community so as to promote economic democracy; (5) the employment of revenues and expenditures as instruments of economic and social policy. George B. Galloway and Associates, "Planning for America", (New York: Henry Holt and Co., 1941) p 617

during an economic crises in which the absence of management was keenly felt. The executive order established the following principal divisions in the Executive Office: the White House Office, the Bureau of the Budget, the National Resources Planning Board, the Liaison Office for Personnel Management, the Office of Government Reports and, in the event of a national emergency or threat of a national emergency, such office for emergency management as the President shall determine.¹⁴

The Bureau of the Budget is limited to overall financial planning by the separation of the income and expenditure aspects of the budget for the initiation and recommendation of revenue - income raising plans are shared by the Treasury Department and the Congress itself as it works through such committees as the Joint Committee of Internal Revenue. Despite this separation, the Bureau is capable of overall financial planning, as it is charged with the responsibility of proposing spending programs in accordance with major policies of the government.

The Budget and Accounting Procedures Act of 1950

The Budget and Accounting Procedures Act of 1950 expressed the intent of Congress that maintenance of accounting systems and development of financial reports were the responsibility of the executive branch; that emphasis should be placed on effecting orderly improvements toward more effective financial management practice and that the Treasury Department, the General Accounting Office and the Bureau of the Budget should conduct a continuous program for the improvement of accounting

¹⁴The Federal Register, United States Government Printing Office, September 12, 1936, p 3863

and financial reporting.¹⁵ Public Law 863 was the major legislative proposal of the budget and accounting recommendations of the Second Hoover Commission. It covered nine of the Hoover recommendations, including provisions for gradual conversion to a procedure under which the Congress would appropriate funds in terms of "accrued expenditures, the use of costs in accounting and budgeting in the executive agencies, the improvement of agency allotment practices and the development of consistency in financial and organization classification."¹⁶

Summary: The history of the budget (agency and process) has been briefly noted. In the beginning, the executive branch under the influence of Alexander Hamilton exerted the strongest influence in financial matters. In a few years the pendulum had swung in the opposite direction so that Congress exerted the strongest influence in financial matters. Today the pendulum has centered - the executive department formulates and executes while the Congress approves or disapproves. The control of the purse is shared equally by the executive and legislative branches of government. The budget and Accounting Act of 1921 is considered a milestone for sound financial management of the United States.

¹⁵Improvement of Financial Management in the Federal Government, Bureau of the Budget, U. S. Government Printing Office, October, p 2

¹⁶IBID., p 6

CHAPTER III

FROM CONCEPTION TO EXECUTION - AT THE EXECUTIVE END

Mechanics of the Navy Budget

At this time the mechanics of budgeting, how the document is passed from official to official, department to department and from one branch of government to the other will be presented. The mechanics differ in each department of government depending on the size and accomplishments of the departments. No department can handle its respective budget exactly as another department and this is as it should be. As the Department of Defense spends the largest amount of each dollar allotted to the government, approximately 42 billion for fiscal '62, an examination of how the budget moves in this department will be discussed. In particular the Navy's part of the Department of Defense's budget will be outlined. The dollar amount of the Navy budget is approximately 12 billion dollars.

A budget is a financial plan, a plan of how the Navy Department hopes to operate eighteen months hence, as the conception time is eighteen months prior to execution time. Where does the Navy budgeteer start? What generates the ideas on how the Navy will form the budget? These ideas must emanate from some person or organization. In the Navy's case, ideas or guidance come from two sources: outside the Navy Department and within the Department itself.

Guidance from outside the Navy Department are from the Commander-in-Chief, the President, and from the Secretary of Defense.

In providing guidance to the Secretary of Defense, the President, of course, relies heavily for advice on his immediate staff agencies and other groups established to assist in the formulation of policy. Among the more of these for budget purpose are the Bureau of Budget, the Council of Economic Advisors, and the National Security Council. Presidential guidance which usually covers broad areas such as fiscal policy, economic assumptions and the general level of the military effort, is usually transmitted to the Secretary of Defense.... The Secretary of Defense, in turn, provides military and fiscal guidance to the Navy. Based on the recommendations of the Joint Chiefs of Staff, for example, he provides the Navy with approved military programs such as force levels and personnel strength. In addition, he provides the fiscal ground rules to be followed in preparing the budget. The amount of direction and guidance received from higher levels varies from year to year depending on many considerations such as the internal situation, the economic outlook, and changes in administration. Very often, guidance is received piecemeal during the budget formulation rather than at the beginning when, from an ideal viewpoint, it is most needed....¹

Within the Department of the Navy, this general guidance is translated into annual Program Objectives, and serves as the base for Navy budget estimates. The Program Objectives have been defined by the Chief of Naval Operations as "definitive statements of requirements."² A requirement is

an expression of a specific demand generated by a strategic plan or strategic concept for products, services or resources. To be useful in budgetary calculations, a requirement must be attainable within reasonable and realistic limits, production and cost.³

The Chief of Naval Operations has prescribed procedures for the preparation of the Department of the Navy Program Objectives. He (Chief

¹United States Department of the Navy, The Budget Process in the Navy, Office of the Comptroller, June 1960, p 3-3

²United States Department of the Navy, Office of the Chief of Naval Operations, Instruction 5000.17, November 23, 1959

³IBID

of Naval Operations) designates program sponsors and program coordinators. Representatives of the Program sponsors are designated as permanent working groups acting at a staff level for the liaison with the program managers to the bureaus.⁴ These Program Objectives are submitted after review and approval by the CAB, (Chief of Naval Operations Advisory Board consisting of top military personnel of the Navy Department), to the Chief of Naval Operations for approval and then forwarded to the Secretary of the Navy for his approval.

After the Program Objectives have been announced, NAVCOMPT (Office of the Navy Comptroller) issues the "call for estimates" to those offices responsible for developing budget estimates to support the Program Objectives. This "budget call" provides the necessary guidance to those offices responsible for the preparation, justification and submission of budget estimates.

The Office of the Navy Comptroller directive (NAVCOMPT Instruction 7102.1 of 3 November 1960, Office of the Navy Comptroller) Subj: Budget exhibits and formats; Instruction for the preparation of,) specifies that the content of the budget submissions be prepared in four parts:

(1) Justification Material. This is prepared by account and assembled in sets for presentation in bound loose-leaf volumes. Instructions for preparing this material are so specific that the structure, accounts, organization and assembly are spelled out in minute detail.

(2) Annex material. This consists of additional volumes for each component organizations, containing specified exhibits of supporting data for use primarily by the Office of the Navy Comptroller. The estimate detail than does the justification material.

(3) Back-up data. This data is prescribed by the Assistant Secretary of Defense (Comptroller) and is assembled into sets by accounts to accompany and support the justification material in the Department of Defense review.

Schedules. These are prescribed by the Bureau of the Budget and are used as support material by the Bureau of the Budget examiners in their review of agency budget estimates.

⁴IBID

After the budget review estimates are put into specified format by the preparing bureaus and offices, they are forwarded to the Office of the Navy Comptroller where the formal review process starts.⁵

...that budget proposed by individual activities in the shore establishment and operating forces have been given a thorough going-over by the chain of command enroute to the appropriate management bureau. This is particularly true of capital expenditure proposals. Furthermore, approval of a proposal by all levels up to the management bureau level is no guarantee that the request will be included in the bureau's budget. Within the bureau, proposals are subject to a close scrutiny to insure they are consistent with the bureau's objectives and goals which have been based on the overall planning objective.⁶

The review of the estimates in the Office of the Comptroller takes several weeks in which hearings, meetings and discussions take place. At the end of this period "mark-ups" (proposed revisions of the submitted budget estimates) are prepared which are based on information accumulated during the above mentioned hearings. These mark-ups are sent to the various Navy Department Bureaus, Office of Chief of Naval Operations, and Headquarters, Marine Corps. These revisions are reviewed by the respective bureau and any areas of disagreement becomes the subject of "reclama hearings." The "mark-up" budget including reclamas and adjustments is submitted to the CAB, the Chief of Naval Operations, the Secretary of the Navy for further review and final decision.⁷ The final authority and responsibility for the Department of Navy's budget is the Secretary of the Navy. From the Secretary of the Navy's Office, the budget is forwarded to the Secretary of Defense.

⁵Research Report of the 1961 Class, Navy Graduate Comptroller-ship Program, "Performance Budgeting and Financial Management in the Department of the Navy," The George Washington University, Washington, D. C., p 42,43

⁶IBID., p 45

⁷Department of the Navy, The Budget Process in Navy, Office of Comptroller, October 1959, p 4-13

The Navy Budget at the Secretary of Defense Level

Because of the time factor, when the Navy Budget is received in the Office of the Secretary of Defense, this office's review is usually conducted jointly with members of the Bureau of the Budget. The staff personnel of the Office of Secretary of Defense and the Bureau of the Budget work together and review is conducted mostly on an informal basis with some formal hearings.⁸ The Office of Secretary of Defense's review is concerned with the validity of program requirements, pricing and feasibility of programs and the relative priority of the programs of the three military departments.

Upon completion of its review the Office of the Secretary of Defense forwards its mark-up to the Navy for comment and reclama similar to procedures when the Office of the Navy Comptroller forwarded its mark-up to the various bureaus. As the bureaus were given an opportunity to present their views so the Navy is given an opportunity to present its view to the Secretary of Defense. Once the Secretary of Defense has heard the "reclamas" he makes his final decision and forwards the budget to the bureau of the Budget.⁹

The Navy Budget at the Budget Bureau Level

As the Bureau of the Budget and the Office of the Secretary of Defense staff personnel usually conduct joint reviews of the budget when received by the Department of Defense, it is difficult to say where the Department of Defense budget handling ends and the Bureau of the Budget

⁸IBID., p 4-16

⁹IBID., p 4-13

handling begins.

The distinction between the two reviews rest primarily in the fact that, while the two agencies are usually in agreement on the funds required for the vast majority of items in the budget, the Bureau of the Budget may not concur fully in the Office of the Secretary of Defense mark-up. Likewise, it may not concur fully in actions taken by the Secretary of Defense on reclaims. In view of its position as a staff agency of the President, the Bureau of the Budget naturally reserves the right to disagree with actions taken while it is participating in the review with the Office of Secretary of Defense.¹⁰

Final decisions on the defense budget are, of course, made by the President, who makes such after consultations with the Bureau of the Budget, the Secretary of Defense, the Joint Chiefs of Staff, the National Security Councils and others.

When the President concurs with the figures presented, the budget is printed and forwarded to the Congress which must be accomplished within the first fifteen days of each regular session of the Congress. Usually this takes place around the twentieth of January each year.

Summary: In these few pages an attempt is made to show the mechanical steps which take place from the budget conception until it is presented to Congress. Remember that approximately thirteen months have intervened from conception to Congress. Much hard work has been put forth and undoubtedly much soul searching and anguish have been encountered. Now what happens to this document as it moves "up to the hill"?

¹⁰IBID., p 4-18

CHAPTER IV

FROM CONCEPTION TO EXECUTION - AT THE LEGISLATIVE END

Review by the Committees of Appropriation

Twelve to thirteen months have gone by, six months more will elapse before Congress takes final action. By custom all appropriation bills originate in the House of Representatives, where the review begins. In both House and Senate, the Committee of Appropriations conducts the review. To expedite business the Appropriations Committee is broken down into subcommittees. The defense budget goes before the Subcommittee on Department of Defense Appropriations in both House and Senate.

Justification in support of the budget is forwarded to the subcommittee approximately three to four weeks in advance of the hearings so that the subcommittee staff may confer with various officials in the Department of Defense to clarify points that may be raised during the Congressional hearings.

At the beginning of the hearings, top officials of each main bureau testify. These officials usually deal only with broad questions of national policy. Following these hearings, the subcommittee commences its hearings with the Secretary of Defense, the Joint Chiefs of Staff and other officials who explain the total defense program and funds required to support it. Each service is also given an opportunity to explain its overall program requirements and funding plans. For

the Navy, this is usually done by the Secretary of the Navy, the Chief of Naval Operations and the Commandant of the Marine Corps. The subcommittee usually considers the individual appropriation requests in the order in which they appear in the President's budget. The questioning of witnesses on each appropriation is usually preceded by delivery of two statements - one by the program sponsor from the Office of the Chief of Naval Operations with respect to program requirements, the other by the Chief of the Bureau involved with respect to funds required to carry out the program.¹ In addition they hear reports from the members of the Budget Bureau and other interested persons who desire to offer testimony. The full committee meets to consider the subcommittee drafts and the subsequent bills are reported to the House.

The House goes into the Committee of the Whole House on the State of the Union for debate and consideration of the appropriation bills. The bills reported to the House may be amended on the House floor before passage. However, the House usually approves the bills in the form which the Committee of the Whole House has adopted them and the bills are sent to the Senate.

The Senate refers the appropriation bills to its Committee on Appropriations where subcommittees hold hearings again and listen to additional testimony. The subcommittee requires the military department to submit reclama statements on all items where there is disagreement with action taken by the House. These reclamas, which represent brief statements explaining what effect the House action would

¹The Budget Process in the Navy, Office of the Comptroller, Department of the Navy, October 1959, p 5-5

have on programs and the reasons for the requested reconsiderations by the Senate are in the nature of appeals. In other words, the interested parties defeated in the House have another opportunity to present their cases. The full committee considers the drafts of the subcommittee and reports the bills to the Senate with or without amendments.

The Conference Committee

The Senate considers the bills in the form transmitted from the House together with the committee amendments. During the Senate debate and discussion concerning the bills, additional amendments may be proposed from the floor of the Senate. Generally, the bills passed by the Senate do not contain the same provisions as those passed by the House. Because of this fact, the bill is forwarded to a conference committee where the differences are resolved. The decision of the conference committee is then reported to each House for a final vote. When both Houses have agreed upon a conference report, the legislative action is complete and the enrolled bill is sent to the President.

The Presidential Level

Upon receipt of the enrolled bill the President refers it to the Budget Bureau and the department concerned for recommendations respecting his action. In many cases the original executive estimates have been completely revised in their legislative passage, and the acceptance of Congressional action would necessitate a substantial revision of programs. The decisional action which the President must make is at times a difficult one. He must accept or reject an entire bill without the benefit of being able to strike out the objectionable features. The

decision to veto an entire bill because of one objectionable part is not a simple one. This is especially true when the enrolled bill reaches the President at a time shortly before the beginning of the new fiscal year. Upon the signature of the President, the bill becomes a law. The State Department, as the custodian of the law, sends certified copies to the Treasury Department.

Summary: The budget has moved through Congress, via the appropriations committees and the conference committee, to the President for signature to become the law of the land. The mechanics of budgeting are pretty much straight forward with the same procedures being used year after year.

CHAPTER V

BUDGETING PROBLEMS IN THE CONGRESS

The Committee System

As previously stated, this country has given precious little attention to the management of its public functions. President Roosevelt pointed out the necessity for continuous interest and administrative study in his 1939 message to Congress.

...we must be constantly alert to the importance of keeping the tools of American democracy up to date. It is our responsibility to make sure that the people's government is in condition to carry out the people's will, promptly, effectively, without waste or lost motion....we are not free if our administration is weak. But we are free if we know, and others know, that we are strong; that we can be tough as well as tender hearted and that what the American people decide to do can and will be done, capably and effectively, with the best national equipment that modern organizing ability can supply in a country where management and organization is so well understood in private affairs.¹

in the last few years there have been a number of studies of the federal administration in the hope of securing greater efficiency in management. The budget has been repeatedly pointed out as one of the major areas for reorganization. It is shown that Congress is inadequate properly to handle the vast load that the budget review presents. Issues before Congress are gigantic. We as a nation cannot afford to see the budgetary process weakened by the hesitancy of Congress to revitalize its share in the process. Although, the President has the

¹Message to Congress transmitted the First Plan on Government Reorganization, April 25, 1939

responsibility for the formulation of the budget, Congress must authorize it. Because the budget is passed in the form of a number of appropriation acts, it bears the imprint of the strongest groups represented in Congress. Thus a subsidy for agriculture must be passed at the behest of a farm bloc, money for a new post office building as proposed by an influential member of Congress and so the list grows.

Harold Smith stated the problem when he wrote that:

No budget system can eliminate all conflict in budgeting. Various regional or economic groups in the population have different concepts of the general welfare which their government is to serve. These differences are reflected both in the legislative and in the executive branch. There is no scientific determination of the "proper" content of a budget. Struggle and compromise is the very essence of the democratic process and is necessarily reflected in the budget. In the President's program, the problem of the nation as a whole are focused. The budget process itself serves as a method to channel and balance the conflicting views and to assure that whatever compromise is reached will be effectuated. A budget cannot be measured by any mechanical rule, but only by its usefulness as an adapted instrument of legislative control as well as of executive management. The real test of a budget lies in its ultimate effectiveness to carry out the will of the community.²

To the extent that Congress works in a democratic manner, the budget will truly reflect the general welfare of the people. As such, Congress attitude and relationship to the budget is repeatedly under attack by private and public studies. The committee system comes under greatest attack - in particular, the committees dealing with appropriations and revenues in both Houses are heavily criticized due to the seniority rule which deprives them of the opportunity of drawing the most capable membership possible. Public finance can hardly receive adequate consideration by committees composed of those whose major qualification is simply the ability to win an election. While the committee chairman are,

²Smith, op. cit., p 99

of course, members of one party, it may be noted that there are times when they come from only one section of the country. Until within recent times, this arrangement also meant heavy overrepresentation of the farm bloc. This results sometimes in the interests of particular groups receiving consideration out of proportion to their relation to the welfare of the people as a whole.

In view of the enormously increased importance of the budget as an economic and social instrument, it is essential to the general welfare that the numerous diverse groups within the nation be properly represented in the budget process. It has been suggested from time to time that committee members be selected by other means and that the practice of choosing committee chairmen by seniority be abandoned. Other proposals have been recommendations for the consolidation of the revenue and appropriations committees in each House; recommendations of joint standing committees of both Houses. It appears that the principal objection in Congress to bills which would modernize present legislative appropriating procedures, is that each contains structural or functional elements which would require changes in traditional Congressional procedures. Congressional rules, regulations and procedures are largely governed by tradition. Each House, each committee, each subcommittee (as well as each official, member and employee) jealously guards rights and privileges and is likely to oppose any suggestion that might infringe upon jurisdiction or prerogatives. The possibility of fewer choice committee assignments led many Congressmen to give up very reluctantly, the system of the numerous committees existing before 1946. The consolidation of some of the committees resulted in the abolition

of those which were largely inactive but which had been previously retained in the interests of the prestige of individual members or as a means of creating committee assignments. With the enlargement of the membership of the remaining committees and an increase in their staffs, the members have more time to study the legislation before them and have the opportunity to become better informed about the problems of the day. After a successful effort had been made to block the McCellan Bill, which had passed the Senate and which would have strengthened Congressional facilities for handling the budget, Congress did allow each of the two Appropriations Committees \$250,000 for additional staff help and other similar purposes. The two committees have increased their staffs and have set up special investigating units. Each unit is under a Director of Studies and Investigations. The staff of each unit may be increased temporarily in accordance with additional needs. Problems which need further investigation are referred to these units.

The proposals for joint committees on appropriations and revenues are no less controversial. There is again the matter of decreasing the number of chairmanships - prospects alarming to many Congressmen. Other and more reasonable criticisms of these proposals have been that a joint committee might be overworked or that such a committee would rank all others in strength and prestige and could become the most powerful group in the House. The suggestion for a joint appropriation and revenue committee, whatever else may be said of them, plainly set forth one great objective: the union of both the appropriation and revenue sides of the budget. The lack of such

union has been one of the persistent faults of the budget process. Joint consideration of income and expenditure could permit Congress to tie-in the expenditures more closely with the government's income. Further it would give the budget more real meaning in the sense of its portraying a comprehensive picture of the government's finance.

The Problem of Trained Committee Staffs

An added obstacle to the thorough treatment of budgetary matters is the lack of trained committees staffs. The absence of skilled assistants means that the fate of the administration's budget proposals depend upon committees which not only fail to contain the most capable members of Congress, but which are also deprived of expert assistance which could provide them (committees) with the information and research vital to a thorough consideration of the budget proposals.³ It is impossible for members of these committees to examine properly the thousands of items presented in the budget, or to determine the real justifications for the funds requested. In view of other tremendously heavy legislative responsibilities, the members of these committees do not have the time personally to study each item of the budget and to get the facts and information to pass judgment. Nor do they have adequate means of obtaining guidance and assistance to enable them to perform the vital functions expected of them.

Another serious problem is the lack of coordination between the committees handling authorizations (substantive legislation) and those handling appropriations. As an example of this lack of coordination -

³Arthur N. Macmahon "Congressional Oversight of Expenditures," Political Science Quarterly, June and September, 1943

let us imagine that a bill is introduced to authorize the construction of a new dam. The authorization may include a relatively small sum for planning, or it may not mention any dollar figure at all. The argument is made in Congress that the sum authorized (if any) is small, and that, as a matter of fact the authorization bill itself doesn't grant the power to spend a single penny - after all the appropriations committees will review that. On the basis of these arguments, the authorization bill is passed. When the time comes to appropriate the first year's funds the appropriation committee is told that Congress approved the project and that the appropriation committee should grant the money. Let us carry this imagination one step further - a first year appropriation for a small amount is passed. The following year, a new request comes in for many millions. A strong case is made that the project is under way and that it would be wasteful and inefficient to stop it midway in its construction. Only a strong-willed appropriations committee will be deaf to such an argument.

Congress might also find it advisable to reconsider the form which the appropriation measures take. The interests of efficient administration are severely handicapped by the prevalent notion that broad appropriation acts would destroy legislative control of the budget. Itemized appropriations handcuff the day-to-day management of the administrative agencies to details which frequently makes more work than useful information.

the details of the business of government have escaped the competence of legislative committees and chairmen; the possibility of deciding policy by settling details, once perhaps feasible, has disappeared; in the future, legislatures per force must deal with administration on the basis of principle and generality if they are to deal

with it effectively and in the public interest.⁴

Is it not possible to entrust to executive management the detailed operations and execution of the will of Congress and at the same time strengthen the Congressional methods of checking upon these operations? The experiences which Congress has had with the executive management of broad appropriations during the early days of the Republic and the emergency period of the thirties have demonstrated that such executive responsibility can be highly satisfactory. Legislative control can be exercised by other means than specifying many months in advance what grade the clerks will have in a particular office. Legislative control, properly exercised, means the control of objectives and of policies. A deliberative body is not properly fitted to direct detailed administrative management. This is the area of executive management.

The most important function which Congress can perform in the budget process is to relate the budget to the general welfare. This is a policy-making function and it points to Congress as the most democratic means of insuring that the budget objectives are in accordance with the nation's basic economic and social philosophy.

Summary: Some of the problems that Congress encounters with the budget have been reviewed - the traditional rules which Congress guard so jealously but which restrict the best qualified men from serving on the appropriations committees; how interest of particular groups receiving consideration out of proportion to their relation to the welfare of the

⁴Leonard D. Shite "Legislative Responsibility for the Public Service", New Horizons in Public Administration, University of Alabama Press, Alabama, 1945, p 6

people as a whole and the problem of the lack of trained committee staffs.

It is hoped that Congress will reform its own procedures just as it passes other legislation -- largely in response to public demand. Certainly the basis upon which decisions are made authorizing the spending of federal money contributed by taxpayers is of vital importance to all of us, but as indicated in the introduction -- too many are only faintly interested and then only in a passing way when we submit our income tax.

CHAPTER VI

A FEW THOUGHTS ON THE PERFORMANCE BUDGET

What is the Performance Budget?

The Hoover Commission in 1949 asked for "a budget based on functions, activities and projects...which would focus attention upon the general character and relative importance of the work to be done, or upon the service to be rendered, rather than upon the things to be acquired, such as personal service, supplies, equipment and so on...the all-important thing in budgeting is the work or the service to be accomplished and what the work or service will cost."¹ This touched off the many debates and arguments concerning the performance budget. Just what is this thing called a performance budget? Seckler-Hudson concluded that functional activity and program budgeting are all the same thing.² On the other hand, Burkhead states "there is no precise definition for performance budgeting; it has come to mean something different in every jurisdiction which puts it into operation."³

As pointed out in the previous chapter, each department lays out a budget based on legislation and guidance provided by the

¹Reports to Congress of the Commission on Organization of the Executive Branch of the Government, Volume 4, Budgeting and Accounting

²Catheryn Seckler-Hudson, "Performance Budgeting in Government". Advanced Management (March 1953) p 5

³Jesse Burkhead, "Government Budgeting", (New York: John Wiley and Sons, Inc., London: Chapman and Hall Limited 1956) p 139

Executive Office. In the Congressional review and also the Budget Bureau review, those reviewing should be interested if the undertakings are essential to the government's overall program and if these undertakings are the most efficient and economical. This is impossible today under the present set up and points up the need for a program or performance type budget.

At the present time two budgets are actually prepared, the expenditure or cash budget and the obligation or administrative budget. However, both of these relate only to actions to be taken in the next fiscal year. In the case of the expenditure budget, this provides the basis for cash payments which must be anticipated in the ensuing year and are therefore the basis for the revenue bill that must be enacted. However, this beclouds the obligation picture since it picks up obligations from prior years as well as the cash portion of the obligations to be incurred in the next fiscal year. Similarly, the obligation authority budget projects the obligation to be entered into in the fiscal year covered without reference to the time at which these will mean expenditures.⁴

A performance classification differs from other classifications. The intent of a performance classification is to assure that the things bought by a government are no longer to be counted or classified solely by type, but are to be organized and aggregated according to the activities they serve. Objects bought and used are viewed as activity factors or components, and the object is deemed significant and classified in relation to what it is used for, not in relation to its specific character.⁵

The Problem of the Performance Classification or Unit

But how can one pick a performance unit that is applicable to

⁴David Novick, "Which Programs Do we Mean in Program Budgeting?", RAND Corporation, Santa Monica, 1954, p 19

⁵Jesse Burkhead, "Government Budgeting", (New York: John Wiley and Sons, Inc., London Chapman and Hall, Limited, 1956) p 140

all facets of the government? What is valid for one department will not be valid for another, and when Congress reviews the budget as a whole can it tell what was exactly done, and whether it was done efficiently if too many performance units were inserted in the budget as a measuring stick. Performance classification in terms of activities will provide a great deal of information about "what government is doing"; will center managements attention on programs and should help to make management cost-conscious? Activity classification can be refined to great detail if this is desired. Refinement, however, runs the risk of obscuring the major outlines of an agency program and of transforming budgeting to a detailed exercise in accounting.⁶ But Congress is interested in dollars and cents of the taxpayers money and although they should recognize performance classification as an aid to management, it is not an aid to Congress directly, although it may be a great indirect aid.

Perhaps a solution would be to present to Congress the budget in two forms - one, its present form showing object spending and two, the same figures presented in a performance scale.

Each department could then use a performance classification most meaningful to its particular type of operation and Congress can examine the budget in question from two viewpoints - one, the agency view, and the other, the taxpayer view, who is interested in how much money is spent for what, rather than for what it does. For the more discriminate voter who is interested in what the money does, the performance classification will be available to him.

⁶Jesse Burkhead, "Government Budgeting", (New York: John Wiley and Sons, Inc., London: Chapman and Hall, Limited, 1956) p 144

To accomplish the above presupposes that Congress has adequate time to study the budget submitted from an object view as well as a performance view. Unfortunately the five or six months that the budget is in the hands of Congress is not enough time for such an adequate and thorough review. It would appear that the everyday items of the budget should be reviewed every other year, while budget items such as capital improvement should be reviewed in the six months prior to the fiscal year as is now the case. As such, Operations and Maintenance sections of the Navy budget would be reviewed every other year, while the Military Construction Section would be reviewed in the six months prior to the fiscal year.

Summary: The proposals stated were that the obligation budget be continuously projected and translated into an expenditure budget, that more time be allowed to Congress for review and if possible the review be made for the everyday expenditures on a two year basis while the capital expenditures be reviewed on a yearly basis.

CHAPTER VII

GENERAL CONCLUSIONS

A review of the budget process from conception to execution points up many weaknesses. These have been outlined many times by others for it is much easier to criticize than it is to correct. There is no simple easy road to economy and efficiency in the government or to the control of federal expenditures. There are too many seekers of federal favors, but too few who realize the soundness of the warnings of President Roosevelt to the dangers of weak management practices. It has long been suggested that the methods by which Congress does business are often inadequate to handle the vast load of the present day.

Students of public affairs have consistently reminded Congress that legislative inefficiency impairs its relationship with both the executive branch and the public. Even in the face of a rather persistent Congressional minority, the executive branch has been able to reorganize its activities from time-to-time in order to adjust to changing demands of the people. Congress, on the other hand, has not been readily inclined to revise its own methods. It is interesting to note that when in June 1916 a bill to reorganize Congressional machinery was being considered in the Senate, the upper chamber took favorable action only after a strong bloc had been successful in defeating a proposal that an Office of Congressional Personnel would

handle legislative employees and thus eliminate the patronage system. Such opposition was not unusual, for almost all the plans looking towards Congressional reorganization have felt the temper of small minorities bent on protecting some small area of operation.

The President and his executive branch chart our national course. This job is so big and so complex that Congress has never found a way to organize to handle it and probably never will. Congress reviews, to the extent possible, the proposed actions of the executive and makes necessary changes before allowing the executive branch to proceed. The aim of the review is to consider the main objectives, but details are considered some to an unwarranted extent. Regardless of the general efficiency of the review and the ability of the reviewers', the knowledge that any detailed point is subject to examination makes for more careful work. The aim of this thesis has been to emphasize that the Federal Budget is the instrument which makes the dreams of the American people a reality. It is the Federal Budget which applies a yardstick to this reality. It is imperative that we examine this document for the information it contains and that we constantly endeavor to find ways and methods for improvement. This is an ever-ending job; in some instances a disagreeable one, but one which must be carried out if we are to continue along the lines laid down by our forefathers.

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